

HARLAN MUNICIPAL UTILITIES
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
AND QUESTIONED COSTS

JUNE 30, 2008

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OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Amy Keast	Chairman	2011
Michael Hansen	Vice-Chairman	2009
Randall Doran	Board Member	2010
Allen Burchett	Board Member	2012
Michael Jones	Board Member	2013
Tom Gaffigan	Chief Executive Officer	Indefinite
John Doonan	Director of Customer Relations & Support Services	Indefinite
Robert Hall	Attorney	Indefinite

HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.

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INDEPENDENT AUDITORS' REPORT

October 27, 2008

Board of Trustees
Harlan Municipal Utilities
Harlan, Iowa

We have audited the accompanying basic financial statements of the business type activities, listed as exhibits in the table of contents of this report, of Harlan Municipal Utilities, a component unit of the City of Harlan, as of and for the year ended June 30, 2008. These financial statements are the responsibility of the management of the Harlan Municipal Utilities. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, the financial statements of Harlan Municipal Utilities are intended to present the financial position and results of operations and cash flows of proprietary fund types of only that portion of the financial reporting entity of the City of Harlan, Iowa, that is attributable to the transactions of the Harlan Municipal Utilities.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities, in which each is shown as a major fund, of the Harlan Municipal Utilities as of June 30, 2008, and the respective changes in financial position and cash flows of its proprietary fund types for the year then ended in conformity with U.S. generally accepted accounting principles.

Board of Trustees
October 27, 2008
Page Two

In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2008, on our consideration of Harlan Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 11 and 38 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Harlan Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Information in Schedules 11 through 13 has not been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, accordingly, we express no opinion on it.



HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.
Certified Public Accountants



HARLAN MUNICIPAL UTILITIES

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Electric
Water
Gas

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Harlan Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased 5.43%, or \$661,558, from fiscal 2007 to fiscal 2008.
- Operating expenses increased 11.85%, or \$966,550 from fiscal 2007 to fiscal 2008.
- The Utilities' net assets of business type activities increased 8.42%, or \$1,892,602 from June 30, 2007 to June 30, 2008.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

Financial Statements consist of a Balance Sheet- Proprietary Funds, and a Statement of Revenues, Expenses, and Changes in Fund Net Assets- Proprietary Funds and a Statement of Cash Flows- Proprietary Funds. These provide information about the activities of Harlan Municipal Utilities as a whole and present an overall view of the Utilities' finances.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

Other Supplementary Information provides comparative financial data with a prior year and statistical data.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Basic Financial Statements

One of the most important questions asked about the Utilities' finances is, "Is the Utility as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report information, which helps answer, this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Balance Sheet presents all of the Utilities' assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the Utilities' net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets presents information showing how the Utilities' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report the following activity:

- Business type activities including the electric utility, gas utility, water utility, telecommunication utility, and the telephone utility. These activities are financed primarily by user charges.

Fund Financial Statements

The Utility has one fund:

1) Proprietary funds account for the Utilities' Enterprise Funds. These funds report services for which the Utility charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Balance Sheet and the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The Enterprise Funds include the electric utility, gas utility, water utility, telecommunication utility, and the telephone utility, each considered to be a major fund of the Utility. The Utility is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The required financial statements for proprietary funds include a balance sheet, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

BASIC FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for business type activities.

Net Assets		
Business Type Activities-Enterprise Funds		
	Year Ended	
	6-30-08	6-30-07
Current and other assets	\$ 12,317,210	\$ 11,561,852
Capital assets	22,311,104	21,472,182
Total Assets	<u>\$ 34,628,314</u>	<u>\$ 33,034,034</u>
Current liabilities	\$ 2,343,770	\$ 2,182,489
Non-current liabilities	7,921,323	8,380,926
Total Liabilities	<u>\$ 10,265,093</u>	<u>\$ 10,563,415</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 14,289,453	\$ 12,307,431
Restricted	2,505,764	2,411,212
Unrestricted	7,568,004	7,751,976
Total net assets	<u>\$ 24,363,221</u>	<u>\$ 22,470,619</u>

Net assets of business type activities increased from FY07 by \$1,892,602, or 8.42%. The largest portion of the Utilities' net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, decreased by \$183,972 at the end of this year, a decrease of 2.37%.

Changes in Net Assets			
<u>Business Type Activities-Enterprise Funds</u>			
	<u>6-30-08</u>		<u>6-30-07</u>
Revenues:			
Charges for services	\$ 12,844,113	\$	12,182,555
Interest income	311,069		288,723
Capital grants	821		91,547
Gain on sales of assets	625		150,000
Total revenues	<u>13,156,628</u>		<u>12,712,825</u>
Operating expenses:			
Plant operations	6,859,877		5,969,658
Distribution operations	721,970		661,877
Administrative and general	702,690		685,413
Consumer services	41,121		24,483
Marketing and stakeholder relations	166,172		143,645
Employee benefits	630,964		671,168
Total operating expenses	<u>9,122,794</u>		<u>8,156,244</u>
Other expenses:			
Amortization	11,289		20,825
Depreciation	1,445,689		1,439,921
Contributions to City-In lieu of taxes	268,422		250,447
Interest expense	361,242		398,320
Industrial development contribution	54,590		64,000
Total other expense	<u>2,141,232</u>		<u>2,173,513</u>
Increase in net assets	1,892,602		2,383,068
Net assets beginning of year	<u>22,470,619</u>		<u>20,087,551</u>
Net assets end of year	\$ <u>24,363,221</u>	\$	<u>22,470,619</u>

INDIVIDUAL PROPRIETARY FUND ANALYSIS

Proprietary Fund Highlights

The Electric Fund, which accounts for the operation and maintenance of the Utilities' electrical system, ended fiscal 2008 with a \$16,639,190 net asset balance compared to the prior year ending net asset balance of \$15,251,926.

The Gas Fund, which accounts for the operation and maintenance of the Utilities' gas system, ended fiscal 2008 with a \$3,299,352 net asset balance compared to the prior year ending net asset balance of \$3,095,769.

The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended fiscal 2008 with a \$3,291,701 net asset balance compared to the prior year ending net asset balance of \$3,138,255.

The Telecommunication Fund, which accounts for the operation and maintenance of the Utilities' cable and internet system, ended fiscal 2008 with a \$1,328,040 net asset balance compared to the prior year ending net asset balance of \$1,114,348.

The Telephone Fund, which accounts for the operation and maintenance of the Utilities' telephone communication system, ended fiscal 2008 with a \$(195,062) net asset balance deficit compared to the prior year ending net asset balance deficit of \$(129,679).

BUDGETARY HIGHLIGHTS

Over the course of the year, the Utility amended its budget once. The amendment was needed to cover unplanned operating revenues and operating expenses. The amendments to the budget also increased the capital expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Utilities' capital assets include land, buildings and improvements, equipment, lighting systems, and other infrastructure. Capital assets for business type activities totaled \$45,594,758 at June 30, 2008. This is a net increase (including additions and deletions) of \$3,557,409 or 8.46% over last year.

Capital Assets at Year End		
	June 30	
	2008	2007
Intangible Plant	\$ 220,632	\$ 220,632
Production	11,346,668	10,535,261
Transmission & Pumping	5,789,012	5,788,711
Distribution	19,575,296	17,231,851
General	3,640,213	3,288,375
Fiber Optics	5,022,937	4,972,519
Total	45,594,758	42,037,349
Less: Accumulated Depreciation	23,444,921	21,999,231
Net Capital Assets	<u>\$ 22,149,837</u>	<u>\$ 20,038,118</u>

This year's major additions included:

Electric Fund – New primary & electrical services	\$ 3,337,963
Gas Fund – New main & services	68,448
Water Fund – Replacement & new service lines	88,918
Telecommunication Fund – Cable modems, equipment, and services	40,241
Telephone Fund – Interface units, test equipment and tools	21,839
Total	<u>\$ 3,557,409</u>

The Utility had depreciation expense of \$1,445,689 in fiscal year June 30, 2008.

There were no disposals for June 30, 2008.

Long-Term Debt

At June 30, 2008, the Utility had \$9,002,672 in total debt outstanding for business type activities compared to \$9,449,207 at June 30, 2007 as shown below.

Outstanding Debt of Business Type Activities at Year-End		
	June 30	
	2008	2007
Revenue bonds	\$ 6,650,000	\$ 7,860,000
Capital loan notes	2,302,225	1,533,454
Contract payable	50,447	55,753
Total	<u>\$ 9,002,672</u>	<u>\$ 9,449,207</u>

During the year ended June 30, 2008, a new telecommunication capital loan for \$920,000 was issued. Total debt was reduced by \$1,366,535 for the amount of principal paid off.

ECONOMIC FACTORS BEARING ON THE UTILITY'S FUTURE

Several economic factors affected decisions made by the Utility in setting its fiscal 2009 budget. The Utility will experience a slight increase in revenues and expenditures from fiscal 2008 to fiscal 2009.

The Business Type Activities—Enterprise Fund is projected to end fiscal 2009 with a fund balance of approximately \$25,996,922, a 6.71% increase from fiscal 2008.

Harlan Municipal Utilities and Walnut Communications entered into three separate service agreements on December 14, 2007 – Cable Television Service Agreement, Host Switching Services Agreement (telephone), ISP Traffic Services Agreement (internet and bandwidth). Billing dates for these three agreements all started on different dates. Walnut Communications started supplying Harlan Municipal Utilities with ISP Services on September 3, 2008. On September 15, 2008 Walnut communications began supplying Harlan Municipal Utilities with Host Switching. Harlan Municipal Utilities commenced providing CATV Service to Walnut Communications on October 1, 2008. Previous Host Switching and ISP requirements were provided to Harlan Municipal Utilities by Long Lines, LLC.

On April 11, 2008 Harlan Municipal Utilities signed an Acceptance Document with MACC (Mid America Computer Corp.). This acceptance document includes telecommunications billing and data processing services. Prior billing and data processing were done by both Long Lines LLC and Martins. The April 11th date was the start of the conversion process of Long Lines and Martins to MACC.

Effective July 1, 2008 the Telephone Utility and the General Telecommunications Utility will be consolidated for all purposes and shall be operated as a single integrated utility called the Harlan Municipal Telecommunications Utility.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Utilities finances and operating activities. If you have any questions or require additional information please contact the Chief Executive Officer, 405 Chatburn Avenue, Harlan, Iowa.

BASIC FINANCIAL STATEMENTS

**HARLAN MUNICIPAL UTILITIES
BALANCE SHEET
PROPRIETARY FUNDS
JUNE 30, 2008**

	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
ASSETS			
CURRENT ASSETS			
Designated			
Plant improvements, emergency and contingency funds:			
Cash and savings	\$ 716,276	\$ 267,062	\$ 37,991
Replacement funds bond requirement:			
Cash and savings	250,000	-0-	-0-
Restricted			
Consumers' deposit fund	26,550	-0-	-0-
Revenue bond retirement-savings	847,230	-0-	-0-
Capital improvement fund – savings	3,914	-0-	170,000
Unrestricted			
Cash and savings	2,758,865	1,928,392	411,338
Industrial development fund	148,923	121,088	-0-
Accounts receivable - net of allowance for doubtful accounts of \$39,500	222,734	122,155	191,392
Unbilled usage	165,233	91,559	47,864
Employee loans receivable	11,676	-0-	-0-
Inventory	337,915	29,868	42,786
Prepaid expenses	31,982	24,146	25,040
Total current assets	5,521,298	2,584,270	926,411
CAPITAL ASSETS			
Utility plant			
Plant in service, at cost	32,790,876	2,302,224	7,482,948
Less accumulated depreciation	16,727,822	1,464,136	3,884,786
	16,063,054	838,088	3,598,162
Construction work in progress	-0-	-0-	-0-
Net capital assets	16,063,054	838,088	3,598,162
OTHER ASSETS			
Other A/R – CABS L.T.	-0-	-0-	-0-
Note receivable – Shelby Co. Fair	27,336	-0-	-0-
Bond discount and issuance costs	23,031	-0-	15,299
Intra-utility note receivable	94,954	94,953	-0-
Restricted investments for bonds:			
Debt reserve	818,500	-0-	227,000
Total other assets	963,821	94,953	242,299
Total assets	\$ 22,548,173	\$ 3,517,311	\$ 4,766,872

Exhibit A

Enterprise Funds			
Telecommunications Utility	Telephone Utility	Elimination	Totals
\$ 123,000	\$ -0-	\$ -0-	\$ 1,144,329
-0-	-0-	-0-	250,000
-0-	-0-	-0-	26,550
24,783	47,979	-0-	919,992
668,000	-0-	-0-	841,914
584,984	118,852	-0-	5,802,431
-0-	-0-	-0-	270,011
120,985	57,606	-0-	714,872
-0-	11,781	-0-	316,437
-0-	-0-	-0-	11,676
3,958	-0-	-0-	414,527
8,048	2,683	-0-	91,899
<u>1,533,758</u>	<u>238,901</u>	<u>-0-</u>	<u>10,804,638</u>
1,246,185	1,772,525	-0-	45,594,758
597,630	770,547	-0-	23,444,921
648,555	1,001,978	-0-	22,149,837
161,267	-0-	-0-	161,267
809,822	1,001,978	-0-	22,311,104
-0-	137,461	-0-	137,461
-0-	-0-	-0-	27,336
223	-0-	-0-	38,553
-0-	-0-	(189,907)	-0-
123,722	140,000	-0-	1,309,222
123,945	277,461	(189,907)	1,512,572
<u>\$ 2,467,525</u>	<u>\$ 1,518,340</u>	<u>\$ (189,907)</u>	<u>\$ 34,628,314</u>

See Notes to Financial Statements.

HARLAN MUNICIPAL UTILITIES
BALANCE SHEET (Continued)
PROPRIETARY FUNDS
JUNE 30, 2008

	Business Type Activities-		
	Electric Utility	Gas Utility	Water Utility
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 219,601	\$ 156,841	\$ 26,784
Payroll taxes payable	12,257	-0-	-0-
State sales and use taxes payable	(286)	3,780	7,994
Salaries, vacation and sick leave payable	54,913	22,651	41,423
Accrued property taxes	118,810	-0-	-0-
Bonds called not paid	12,080	-0-	-0-
Due City of Harlan for collections & fees	-0-	-0-	143,970
Other accrued liabilities	631	-0-	-0-
Payable from restricted assets			
Current maturities of long-term debt	1,005,254	-0-	-0-
Interest payable	53,906	-0-	-0-
Customers' deposits	26,310	-0-	-0-
Total current liabilities	<u>1,503,476</u>	<u>183,272</u>	<u>220,171</u>
NONCURRENT LIABILITIES			
Long-Term Debt,			
net of current maturities (Note 5)	4,395,000	-0-	1,255,000
Contract payable, net of current maturities (Note 5)	10,507	34,687	-0-
Deferred revenue -- CABS	-0-	-0-	-0-
Intra-utility note payable, net of			
current maturities	-0-	-0-	-0-
Total noncurrent liabilities	<u>4,405,507</u>	<u>34,687</u>	<u>1,255,000</u>
NET ASSETS			
Invested in capital assets, net of			
related debt	10,652,293	803,401	2,343,162
Restricted for:			
Customer deposits	26,550	-0-	-0-
Revenue bond-debt reserve	818,500	-0-	227,000
Revenue bond retirement	847,230	-0-	-0-
Replacement funds -- bond	250,000	-0-	-0-
Unrestricted	4,044,617	2,495,951	721,539
Total net assets	<u>16,639,190</u>	<u>3,299,352</u>	<u>3,291,701</u>
Total liabilities and net assets	<u>\$ 22,548,173</u>	<u>\$ 3,517,311</u>	<u>\$ 4,766,872</u>

Exhibit A
(Continued)

<u>Enterprise Funds</u>			
<u>Telecommunications Utility</u>	<u>Telephone Utility</u>	<u>Elimination</u>	<u>Totals</u>
\$ 102,522	\$ 48,044	\$ -0-	\$ 553,792
-0-	-0-	-0-	12,257
10,244	2,062	-0-	23,794
14,462	5,705	-0-	139,154
-0-	-0-	-0-	118,810
-0-	-0-	-0-	12,080
17,056	-0-	-0-	161,026
-0-	363	-0-	994
128,558	85,000	-0-	1,218,812
7,976	14,859	-0-	76,741
-0-	-0-	-0-	26,310
<u>280,818</u>	<u>156,033</u>	<u>-0-</u>	<u>2,343,770</u>
858,667	1,230,000	-0-	7,738,667
-0-	-0-	-0-	45,194
-0-	137,462	-0-	137,462
-0-	189,907	(189,907)	-0-
<u>858,667</u>	<u>1,557,369</u>	<u>(189,907)</u>	<u>7,921,323</u>
490,597	-0-	-0-	14,289,453
-0-	-0-	-0-	26,550
123,722	140,000	-0-	1,309,222
24,783	47,979	-0-	919,992
-0-	-0-	-0-	250,000
688,938	(383,041)	-0-	7,568,004
<u>1,328,040</u>	<u>(195,062)</u>	<u>-0-</u>	<u>24,363,221</u>
\$ <u>2,467,525</u>	\$ <u>1,518,340</u>	\$ <u>(189,907)</u>	\$ <u>34,628,314</u>

See Notes to Financial Statements

HARLAN MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Business Type Activities – Enterprise Funds					
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Telephone Utility	Total
OPERATING REVENUES						
Sales to consumers	\$ 5,408,279	\$ 3,495,552	\$ 1,253,447	\$ 1,223,462	\$ 571,947	\$ 11,952,687
Other operating revenue	95,162	8,049	20,736	27,151	-0-	151,098
Excess sales – Louisa Power	740,328	-0-	-0-	-0-	-0-	740,328
Total operating revenue	6,243,769	3,503,601	1,274,183	1,250,613	571,947	12,844,113
OPERATING EXPENSES						
Plant operation expenses	1,750,449	2,679,407	79,540	504,002	312,252	5,325,650
Cost of gas, power, chemicals, programming, and line fees	569,829	-0-	-0-	-0-	-0-	569,829
Cost of excess sales	67,801	18,306	148,667	16,082	1,336	252,192
Salaries and wages	15,057	23,739	66,507	31,676	13,804	150,783
Repairs and maintenance	55,837	20,176	96,974	17,431	5,845	196,263
Utilities	39,573	29,351	30,438	9,892	3,261	112,515
Insurance	118,810	-0-	-0-	-0-	-0-	118,810
Property taxes	48,247	19,554	54,143	6,065	5,826	133,835
Other	2,665,603	2,790,533	476,269	585,148	342,324	6,859,877
Total plant operation expense	191,578	103,872	28,109	84,042	-0-	407,601
Distribution operation expenses	5,104	4,050	11,030	8,503	-0-	28,687
Engineering	170,812	31,675	22,296	9,735	105	234,623
Repairs and maintenance	4,662	7,135	937	38,325	-0-	51,059
Other	372,156	146,732	62,372	140,605	105	721,970
Total distribution operation expense	102,977	94,124	92,428	49,843	40,960	380,332
Administrative and general expenses	54,485	9,298	19,070	27,785	6,498	117,136
Salaries and wages	9,874	17,630	3,952	1,062	-0-	32,518
Office supplies	19,190	35,156	9,473	38,500	5,029	107,348
Education and travel	7,694	12,598	35,355	1,546	8,163	65,356
Professional	194,220	168,806	160,278	118,736	60,650	702,690
Other						
Total administrative and general expenses						

Exhibit B
(Continued)

HARLAN MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Business Type Activities – Enterprise Funds					Total
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Telephone Utility	
OPERATING EXPENSES (Continued)						
Consumer services	\$ 3,781	\$ 16,221	\$ 8,309	\$ 5,827	\$ 5,208	\$ 39,346
Bad debts	-0-	115	-0-	1,428	232	1,775
Other	3,781	16,336	8,309	7,255	5,440	41,121
Total consumer services						
Marketing and stakeholder relations						
Salaries and wages	10,020	10,197	10,020	41,371	5,262	76,870
Advertising	40,098	5,378	6,260	14,349	6,181	72,266
Other	5,408	4,121	4,267	2,451	789	17,036
Total marketing and stakeholder relations	55,526	19,696	20,547	58,171	12,232	166,172
Employee benefits						
Payroll taxes	63,273	33,785	47,321	29,022	7,443	180,844
Health insurance	104,614	37,035	76,044	26,711	14,613	259,017
Compensated absences	83,172	28,485	48,703	21,087	9,656	191,103
Total employee benefits	251,059	99,305	172,068	76,820	31,712	630,964
Total operating expenses excluding Amortization and depreciation	3,542,345	3,241,408	899,843	986,735	452,463	9,122,794
Operating income (loss) before amortization and depreciation	2,701,424	262,193	374,340	263,878	119,484	3,721,319
Amortization	6,674	-0-	4,188	427	-0-	11,289
Depreciation	1,037,858	56,783	161,311	54,333	135,404	1,445,689
	1,044,532	56,783	165,499	54,760	135,404	1,456,978
Operating income (loss)	1,656,892	205,410	208,841	209,118	(15,920)	2,264,341

Exhibit B
(Continued)

HARLAN MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Business Type Activities – Enterprise Funds					Total
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Telephone Utility	
NON-OPERATING REVENUES (EXPENSES)						
Capital Grants	\$ 304	\$ 254	\$ 263	\$ -0-	\$ -0-	\$ 821
Contributions to City-In lieu of taxes (Note 9)	(194,930)	(46,236)	(26,728)	(528)	-0-	(268,422)
Gain (Loss) on sale of assets	315	310	-0-	-0-	-0-	625
Interest income	178,213	70,953	32,523	15,292	14,088	311,069
Interest expense	(226,048)	-0-	(61,453)	(10,190)	(63,551)	(361,242)
Industrial development contribution	(27,482)	(27,108)	-0-	-0-	-0-	(54,590)
Total non-operating revenues (expenses)	<u>(269,628)</u>	<u>(1,827)</u>	<u>(55,395)</u>	<u>4,574</u>	<u>(49,463)</u>	<u>(371,739)</u>
Change in Net Assets	1,387,264	203,583	153,446	213,692	(65,383)	1,892,602
Total net assets (deficit), beginning	<u>15,251,926</u>	<u>3,095,769</u>	<u>3,138,255</u>	<u>1,114,348</u>	<u>(129,679)</u>	<u>22,470,619</u>
Total net assets (deficit), ending	<u>\$ 16,639,190</u>	<u>\$ 3,299,352</u>	<u>\$ 3,291,701</u>	<u>\$ 1,328,040</u>	<u>\$ (195,062)</u>	<u>\$ 24,363,221</u>

See Notes to Financial Statement.

**HARLAN MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
Cash flows from operating activities:			
Cash received from customers and users	\$ 5,689,269	\$ 3,386,569	\$ 1,267,211
Cash received from other revenues	835,490	8,049	20,736
Cash paid to suppliers	(2,814,628)	(2,750,371)	(351,000)
Cash paid for personal services	(329,839)	(168,588)	(204,981)
Cash paid to employees	(449,086)	(252,315)	(324,977)
Net cash provided by operating activities	2,931,206	223,344	406,989
Cash flows from noncapital financing activities:			
Contributions to City – In lieu of taxes	(194,930)	(46,236)	(26,727)
Net cash provided (used) by noncapital financing activities	(194,930)	(46,236)	(26,727)
Cash flows from capital and related financing activities:			
Loan proceeds	-0-	-0-	-0-
Gain on sales of assets	315	310	-0-
Acquisition of capital assets	(1,903,899)	(68,448)	(88,918)
Repayments on intra-utility notes	-0-	-0-	-0-
Principal payments on long-term borrowings	(1,055,254)	(52)	(160,000)
Interest paid on notes	(236,470)	-0-	(61,453)
Bond discount/issue costs paid	-0-	-0-	-0-
Net cash provided (used) by capital and related financing activities	(3,195,308)	(68,190)	(310,371)
Cash flows from investing activities:			
Principal received (loaned) on Fairground Note	(27,336)	-0-	-0-
Capital grants	304	254	263
Interest on investments	178,213	70,953	32,523
Industrial development contribution	(27,482)	(27,108)	-0-
Principal received (loaned) on employee loans	3,718	-0-	-0-
Principal received on intra-utility notes	-0-	47,477	-0-
Net cash provided by investing activities	127,417	91,576	32,786
Net increase (decrease) in cash and cash equivalents	(331,615)	200,494	102,677
Cash and cash equivalents beginning of year	5,901,873	2,116,048	743,652
Cash and cash equivalents end of year	\$ 5,570,258	\$ 2,316,542	\$ 846,329

Exhibit C

Enterprise Funds		
Telecommunications Utility	Telephone Utility	Total
\$ 1,170,872	\$ 583,732	\$ 12,097,653
71,511	-0-	935,786
(577,124)	(341,085)	(6,834,208)
(123,309)	(39,589)	(866,306)
(209,114)	(56,088)	(1,291,580)
332,836	146,970	4,041,345
(528)	-0-	(268,421)
(528)	-0-	(268,421)
920,000	-0-	920,000
-0-	-0-	625
(201,508)	(21,839)	(2,284,612)
-0-	(47,477)	(47,477)
(66,229)	(85,000)	(1,366,535)
(3,298)	(64,687)	(365,908)
-0-	-0-	-0-
648,965	(219,003)	(3,143,907)
-0-	-0-	(27,336)
-0-	-0-	821
15,292	14,089	311,070
-0-	-0-	(54,590)
-0-	-0-	3,718
-0-	-0-	47,477
15,292	14,089	281,160
996,565	(57,944)	910,177
527,924	364,775	9,654,272
\$ 1,524,489	\$ 306,831	\$ 10,564,449

See Notes to Financial Statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 1,656,892	\$ 205,410	\$ 208,841
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	1,037,858	56,783	161,311
Amortization expense	6,674	-0-	4,188
(Increase) decrease in customer accounts receivable and unbilled usage and other accounts receivable	280,990	(108,983)	13,764
(Increase) decrease in inventories	(35,984)	1,759	10,865
(Increase) decrease in prepaid expenses	(264)	69	72
Increase (decrease) in accounts payable	2,237	64,503	5,269
Increase (decrease) in payroll taxes payable	(20,244)	-0-	-0-
Increase (decrease) in sales & use tax payable	(1,550)	1,135	(271)
Increase (decrease) in salaries payable	6,462	2,668	2,950
Increase (decrease) in property taxes payable	(5,198)	-0-	-0-
Increase (decrease) in other payables	3,333	-0-	-0-
Net cash provided by operating activities	\$ 2,931,206	\$ 223,344	\$ 406,989
Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:			
Current assets:			
Cash and pooled investments	\$ 2,907,788	\$ 2,049,480	\$ 411,338
Restricted assets:			
Cash and pooled investments:			
Revenue bond retirement	1,097,230	-0-	-0-
Revenue bond debt reserve	818,500	-0-	227,000
Capital improvements	3,914	-0-	170,000
Designated contingency fund	716,276	267,062	37,991
Consumers' deposit fund	26,550	-0-	-0-
Cash and cash equivalents end of year	\$ 5,570,258	\$ 2,316,542	\$ 846,329

Enterprise Funds		
Telecommunications Utility	Telephone Utility	Total
\$ 209,118	\$ (15,920)	\$ 2,264,341
54,333	135,404	1,445,689
427	-0-	11,289
(8,230)	11,785	189,326
1,762	-0-	(21,598)
24	8	(91)
63,814	13,306	149,129
-0-	-0-	(20,244)
6,992	1,286	7,592
3,311	1,126	16,517
-0-	-0-	(5,198)
1,285	(25)	4,593
<u>\$ 332,836</u>	<u>\$ 146,970</u>	<u>\$ 4,041,345</u>
\$ 584,984	\$ 118,852	\$ 6,072,442
24,783	47,979	1,169,992
123,722	140,000	1,309,222
668,000	-0-	841,914
123,000	-0-	1,144,329
-0-	-0-	26,550
<u>\$ 1,524,489</u>	<u>\$ 306,831</u>	<u>\$ 10,564,449</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(1) Summary of Significant Accounting Policies

The Harlan Municipal Utilities is governed by a Board of Trustees that are appointed by the Mayor of the City of Harlan, Iowa. Services provided are electric, gas, water, telecommunications and telephone. The Utility follows the accounting practices prescribed by the Federal Energy Regulatory Commission which conform with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

Criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. Specifically, those offices and activities over which the Board of Trustees exercise oversight responsibility are included in these financial statements. Manifestations of oversight responsibility over an entity include: (1) financial interdependency, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations, and (5) accountability for fiscal matters.

In accordance with GASB 14, Harlan Municipal Utilities has been identified as a component unit of the City of Harlan.

B. Basis of Presentation

Basic Financial Statements

The Balance Sheet and the Statement of Revenues, Expenses and Changes in Fund Net Assets report information on Harlan Municipal Utilities business type activities which rely to a significant extent on fees and charges for services.

The Balance Sheet presents the Utilities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

Fund Financial Statements

The accounts of the Utility are organized on the basis of proprietary funds, each of which is considered to be a separate accounting entity and each is reported in a separate column in the financial statements. The operations of each fund are accounted for by a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses.

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

B. Basis of Presentation (continued)

Fund Financial Statements (continued)

The Harlan Municipal Utilities report the following major proprietary funds:

Enterprise:

The Electric Fund is used to account for the operation and maintenance of the Utilities' electric system.

The Gas Fund is used to account for the operation and maintenance of the Utilities' gas system.

The Water Fund is used to account for the operation and maintenance of the Utilities' water system.

The Telecommunications Fund is used to account for the operation and maintenance of the Utilities' telecommunication system.

The Telephone Fund is used to account for the operation and maintenance of the Utilities' telephone system.

C. Measurement Focus and Basis of Accounting

The Harlan Municipal Utilities reports all of its' proprietary fund financial statements on the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

The proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget. The budget of the Utility is submitted with that of the City of Harlan following required public notice and hearing. The budgetary comparison and related disclosures are reported as Required Supplementary Information.

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

E. Cash, Investments, and Cash Equivalents

The cash balances of most of the funds are pooled and invested. Interest earned on investments is divided among the enterprise funds. For purposes of the Statement of Cash Flows, the Utility considers all deposits to be cash equivalents. Investments are stated at cost which approximates market.

F. Inventory

Inventory consists of materials, supplies, fuel and coal. The inventory is valued at average cost. The Electric Fund owns a share in the Louisa Power Plant, and the coal inventory is kept at the Louisa plant site. Inventories are recorded as expenses when consumed rather than when purchased.

G. Capital Assets

Capital assets, which include property, plant, and equipment, are stated at original cost, including an allowance for borrowed funds used during construction. The allowance for borrowed funds used during construction consists of interest costs on proceeds temporarily invested. Depreciation of the Utilities' property, plant, and equipment is calculated on the straight-line method at rates based on estimated service lives and salvage values of the several classes of property. The estimated service lives range from 5 to 50 years. It is the policy of the Utilities not to take any depreciation on capital assets in the year they are placed in service and to take a full year's depreciation in the year of disposition.

Replacements and betterments of depreciable property are charged to the asset. Routine maintenance and repairs are charged to expense as incurred.

The Utility capitalizes direct labor, material costs and interest costs used to construct improvements. Projects uncompleted on June 30, 2008 have been classified as work in progress.

H. Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided. The allowance for doubtful accounts for all of the Enterprise Funds combined amounted to \$39,500 at June 30, 2008.

The customer billing locations are divided into 24 meter-reading routes, which are read once a month. The 24 reading routes are divided into three billing cycles. Therefore, three mailings of bills are done each month. The bill allows at least 20 days from the mailing date till the due date. If a customer does not pay their bill by the due date shown on the bill, a delinquent notice is mailed out that gives them 12 more days to pay their bill. If the customer exceeds the 12 day past due notice, they then receive a hand delivered shut off notice which gives them 24 hours to pay or make payment arrangements. A customer fee of \$25 is assessed if the Utility has to hand delivered a shut off notice.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

- I. Restricted Assets – Funds set aside for payment of revenue bonds are classified as restricted assets since their use is restricted by applicable bond indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers and deposits set aside for capital construction.

J. Bond Discount and Issue Costs

Bond discount and issue costs are being amortized over the life of the bonds using the effective interest method.

K. Medical/Health Self-Insurance

The Utility, jointly with the City of Harlan, has a Medical/Health self-insurance program. The purpose of the program is to pay medical insurance claims of employees and covered dependents to minimize the annual cost of insurance to the Utility. The program pays a plan administrator to process and evaluate claims, and the plan administrator, in turn, bills the City of Harlan for approved claims up to a stop loss maximum of \$40,000 per year, per covered individual. A private insurance carrier pays claims in excess. The Utility, in turn, remits to the City a set amount monthly to cover claims and plan costs paid on their behalf. Health insurance expense for the year ended June 30, 2008 was \$259,017.

L. Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of CABS billings for the telephone system which are considered highly uncollectible.

M. Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. The accrued amounts have been recognized in the financial statements as of June 30, 2008 at current pay rates.

A limited amount of earned but unused sick leave may be accrued by an employee. Sick leave is payable when used, over maximum, or upon retirement. If an employee has accumulated over the maximum 576 hours, one-third of the excess will be paid to the employee each November. The accrued amounts for the one-third have been recognized in the financial statements as of June 30, 2008 at current pay rates. An employee forfeits any accrued sick leave if he resigns or is terminated before retirement. The amount of maximum potential liabilities for sick leave at June 30, 2008 was \$291,010. This liability is not reflected in the financial statements since the amounts actually payable are not readily determinable.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

N. Advertising

Advertising costs are expensed as incurred. Advertising expense was \$72,266 for the year ended June 30, 2008. This includes the expenses incurred in their energy efficiency program.

O. Allocations

The Utility allocates expenses based on the number of customers in each utility except for those expenses determined to be for a specific fund. The allocation of liability insurance is based on plant valuation.

P. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. As of the date of the issuance of the accompanying financial statements, no material changes to the estimates used therein were anticipated by management in the near term.

Q. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenses did not exceed the amount budgeted for the business type activities for the cash basis budget.

(2) Deposits and Investments

The Utility's deposits in banks at June 30, 2008 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trust; and warrants or improvement certificates of a drainage district.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

(3) Capital Assets

Capital assets activity for the year ended June 30, 2008 is summarized by the following classifications:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year
Intangible plant	\$ 220,632	\$ -0-	\$ -0-	\$ 220,632
Production	10,535,261	811,407	-0-	11,346,668
Transmission & Pumping	5,788,711	301	-0-	5,789,012
Distribution	17,231,851	2,343,445	-0-	19,575,296
General	3,288,375	351,838	-0-	3,640,213
Fiber Optics	4,972,519	50,418	-0-	5,022,937
Total property, plant and equipment	42,037,349	3,557,409	-0-	45,594,758
Less: accumulated depreciation	21,999,231	1,445,690	-0-	23,444,921
Net property, plant and equipment	\$ 20,038,118	\$ 2,111,719	\$ -0-	\$ 22,149,837
Depreciation charged to operations				\$ 1,445,690

(4) Bonds Payable & Contract Payable

Revenue Bond Covenants

Bond covenants require funds to be set aside in retirement, reserve, and plant improvements accounts. The Utility has set aside such accounts.

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(4) Bonds Payable & Contract Payable (Continued)

Details of revenue bonds/capital loan notes and contracts payable are as follows:						
	Date of Issue	Amount Originally Issued	Interest Rates	Final Due Date	Annual Payments	Outstanding June 30, 2008
<u>Electric Fund:</u>						
Elec. Revenue Bond	6-29-96	\$ 2,525,000	5.00-5.50%	10-01-09	\$25,000-525,000	\$ 1,025,000
Elec. Rev. Bond, Services 2003 A	2-10-03	980,000	2.25-2.85%	10-01-08	\$185,000-245,000	245,000
Elec. Rev. Bond, Series 2004	5-01-04	3,400,000	3.00-4.00%	10-01-15	\$150,000-480,000	2,945,000
Elec. Rev. Bond, Series 2006	12-5-06	1,280,000	3.70-4.05%	10-01-17	\$100,000-140,000	1,180,000
Contract Payable, Myrtue Hospital	12-1-05	26,268	0%	12-01-10	\$5,254	15,760
Total Electric Bonds & Contracts					\$	\$ 5,410,760
<u>Water Fund:</u>						
Water Rev. Bond, Series 1999	7-01-99	\$ 1,600,000	4.85%-5.00%	7-01-14	\$90,000-145,000	\$ 775,000
Water Rev. Bond, Series 2004	4-15-04	670,000	1.40%-4.10%	7-01-16	\$45,000-70,000	480,000
Total Water Bonds					\$	\$ 1,255,000
<u>Telecommunications Fund:</u>						
Communications Utility Rev.						
Refunding Capital Loan, Series 2004	4-01-04	\$ 317,225	3.25%	4-01-09	\$66,000-67,225	\$ 67,225
Capital Loan Notes, Series 2008	4-24-08	920,000	4.60%	4-01-13	\$61,333-674,667	920,000
Total Telecommunications Loans					\$	\$ 987,225
<u>Telephone Fund:</u>						
Telephone Capital Loan Note	3-30-07	1,400,000	4.52%	4-01-12	\$85,000	\$ 1,315,000
<u>Gas Fund:</u>						
Contract Payable-Shelby County	9-26-96	\$ 37,063	0%	Unknown	Various	\$ 34,687

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(4) Bonds Payable & Contracts Payable (Continued)

Long-Term Debt Summary

Long-term debt maturities are as follows:

Year Ending June 30,	Electric Revenue Bonds & Contracts		Water Revenue Bonds		Telecommunications Revenue Capital Loan Notes		Telephone Revenue Capital Loan Note	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 1,005,254	\$ 194,460	\$ -0-	\$ 27,496	\$ 128,558	\$ 40,978	\$ 85,000	\$ 59,438
2010	785,253	154,463	165,000	51,550	61,333	39,499	85,000	55,596
2011	510,253	127,136	170,000	44,491	61,333	36,677	85,000	51,754
2012	525,000	109,261	180,000	36,897	61,333	33,856	1,060,000	47,912
2013	545,000	90,128	190,000	28,638	674,668	31,035	-0-	-0-
2014	565,000	69,691	200,000	19,805	-0-	-0-	-0-	-0-
2015	590,000	47,239	210,000	10,427	-0-	-0-	-0-	-0-
2016	610,000	23,270	70,000	4,235	-0-	-0-	-0-	-0-
2017	135,000	8,370	70,000	1,435	-0-	-0-	-0-	-0-
2018	140,000	2,835	-0-	-0-	-0-	-0-	-0-	-0-
Total	\$ 5,410,760	\$ 826,853	\$ 1,255,000	\$ 224,974	\$ 987,225	\$ 182,045	\$ 1,315,000	\$ 214,700

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2008 is as follows:

	Electric Revenue Bonds & Contracts	Water Revenue Bonds	Telecommunications Capital Loan Notes	Telephone Capital Loan Notes	Gas Shelby County Contract	Total
Balance, beginning	\$ 6,466,014	\$ 1,415,000	\$ 133,454	\$ 1,400,000	\$ 34,739	\$ 9,449,207
Issued	-0-	-0-	920,000	-0-	-0-	920,000
Paid	(1,055,254)	(160,000)	(66,229)	(85,000)	(52)	(1,366,535)
Balance, ending 6-30-08	5,410,760	1,255,000	987,225	1,315,000	34,687	9,002,672
Less: Current Portion	(1,005,253)	-0-	(128,558)	(85,000)	-0-	(1,218,811)
L. T. Debt, net of Current Portion	\$ 4,405,507	\$ 1,255,000	\$ 858,667	\$ 1,230,000	\$ 34,687	\$ 7,783,861

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

(6) Intra-Utility Notes Payable & Notes Receivable

In March 2002 the Telephone Utility borrowed \$200,000 from the Electric Utility and \$200,000 from the Gas Utility at a 4.85% interest rate for each. In June 2004, a new resolution was adopted where the notes will no longer accrue interest and any or all prior interest was forgiven and cancelled. A new payment schedule for the remaining unpaid principal was also set up.

Detail of interfund receivables and payables at June 30, 2008 is as follows:

Payable Fund.	<u>Telephone Utility</u>		<u>Totals</u>
	<u>Loan from</u>	<u>Loan from</u>	
Receivable Fund.	<u>Elec. Utility</u>	<u>Gas Utility</u>	
Beginning Balance 7-1-07	\$ 94,954	\$142,430	\$237,384
Less: Payments made by Telephone Utility	<u>-0-</u>	<u>(47,477)</u>	<u>(47,477)</u>
Ending Balance 6-30-08	<u>\$ 94,954</u>	<u>\$ 94,953</u>	<u>\$189,907</u>

(7) Changes in Notes Receivable - Other

The Utility has a program in which full time employees can take out an interest free loan up to \$3,000 to purchase a computer. The loan is to be paid back over a three year period and payments are withheld from the employees paychecks.

Harlan Municipal Utilities entered into an agreement with the Shelby County Fair Board to install new electric facilities at the Shelby County Fair Grounds. The cost of this project was \$29,821. The Fair Board will make sixty equal monthly payments in the sum of \$497 per month which will be added to the monthly Harlan Municipal Utility electric utility bill of the Fair Board. The monthly payments shall be made interest free.

A summary of changes in Other Notes Receivable for the year ended June 30, 2008 is as follows:

	<u>Employee Computer Note Receivable</u>	<u>Fair Ground Note Receivable</u>
Beginning Balance 7-1-07	\$ 15,394	\$ -0-
Loaned Out	8,940	29,821
Payments Received/Forgiven	<u>(12,658)</u>	<u>(2,485)</u>
Ending Balance 6-30-08	<u>\$ 11,676</u>	<u>\$ 27,336</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

(8) Jointly Owned Electric Utility Plant

The Utility owns a share in a power plant located in Louisa County, Iowa. The Utility is required to pay for its share of the plant's operating expenses on an ongoing basis. These expenses are reflected in the Statement of Earnings. The Utility's ownership share in the plant is reflected on the Balance Sheet in Utility Plant. The net book value as of June 30, 2008 is as follows:

<u>Unit</u>	<u>Percentage of Ownership</u>	<u>Louisa Electric Utility Plant, Net</u>
Louisa Power Plant and Transmission Lines	<u>.8%</u>	\$ <u>7,575,161</u>

(9) Related Party Transactions

The Utility provides utility services to the City of Harlan. The Utility contributes an amount equal to the utilities back to the City for payment in lieu of taxes. The amounts paid to the City for the year ended June 30, 2008 was \$268,422.

(10) Deficit Balances

The Telephone Fund had a Fund deficit of \$195,062 for the year ended June 30, 2008. During the year ended June 30, 2008, this deficit was increased by \$65,383 when compared to the prior year. Effective July 1, 2008, the Telecommunications Fund and the Telephone Fund will be combined into just one fund and thus the deficit will be absorbed by the Telecommunications Fund.

(11) Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the Utility is required to contribute 6.05% of annual covered salary. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$85,552, \$82,062 and \$80,751, respectively, equal to the required contributions for each year.

(12) Risk Management

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

(13) Pledged Contributions

In December 2006, the Utility Board approved funding in the amount of \$125,000 to Iowa Western Community College for a college park project. This pledge is to be spread over 5 years and the first payment was made in January 2008. The remaining unpaid pledge is \$100,000 as of June 30, 2008.

In January 2008, the Utility Board approved a pledge of \$150,000 to Myrtue Medical Center Wellness Center. The contribution will be made over 5 years at the sum of \$30,000 per year. As of June 30, 2008, no payments have been made on this pledge yet.

(14) Related Party Transactions

The Utility had business transactions between the Utility and Utility officials totaling \$52,087 during the year ended June 30, 2008.

(15) Subsequent Events

The Board of Trustees of the Harlan Municipal Utilities has operated for accounting and related purposes its Telephone and General Telecommunications Utility as separate utilities. Effective July 1, 2008 the Telephone Utility and the General Telecommunications Utility will be consolidated for all purposes and shall be operated as a single integrated utility called the Harlan Municipal Telecommunications Utility.

Harlan Municipal Utilities and Walnut Communications entered into the following three separate service agreements on December 14, 2007: Cable Television Service Agreement, Host Switching Services Agreement (telephone), ISP Traffic Services Agreement (Internet and bandwidth). Billing dates for these three agreements all began on different dates. Walnut Communications started supplying Harlan Municipal Utilities with ISP Services on September 3, 2008. On September 15, 2008 Walnut communications began supplying Harlan Municipal Utilities with Host Switching. Harlan Municipal Utilities started providing CATV Service to Walnut Communications on October 1, 2008. Previous Host Switching and ISP requirements were provided to Harlan Municipal Utilities by Long Lines, LLC. After the above agreements were put into place, all contracts with Long Lines, LLC ceased.

REQUIRED SUPPLEMENTARY INFORMATION

**HARLAN MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS-
ACCRUAL BUDGET VS ACTUAL (ACCRUAL BASIS)
PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008**

	Accrual Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Operating Revenues			
Sales to consumers	\$11,908,327	\$13,185,415	\$(1,277,088)
Other operating revenue	195,458	204,810	(9,352)
Excess sales	<u>740,328</u>	<u>875,000</u>	<u>(134,672)</u>
Total operating revenue	12,844,113	14,265,225	(1,421,112)
Operating Expenses			
Plant operation expenses	6,859,877	7,821,105	961,228
Distribution operation	721,970	676,414	(45,556)
Administrative and general	702,690	688,815	(13,875)
Consumer services	41,121	44,295	3,174
Marketing and relations	166,172	152,985	(13,187)
Employee benefits	630,964	670,134	39,170
Amortization and depreciation	<u>1,456,978</u>	<u>1,489,500</u>	<u>32,522</u>
Total operating expenses	<u>10,579,772</u>	<u>11,543,248</u>	<u>963,476</u>
Operating income	2,264,341	2,721,977	(457,636)
Other revenues (expenses), net	<u>(371,739)</u>	<u>(562,479)</u>	<u>190,740</u>
Change in net assets	1,892,602	<u>\$2,159,498</u>	<u>\$ (266,896)</u>
Total net assets, beginning	<u>22,470,619</u>		
Total net assets, ending	<u>\$24,363,221</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES-
BUDGET AND ACTUAL (CASH BASIS)
PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008**

	Cash Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Receipts:			
Charge for services	\$12,817,823	\$14,060,415	\$(1,242,592)
Miscellaneous	<u>195,458</u>	<u>204,810</u>	<u>(9,352)</u>
Total receipts	13,013,281	14,265,225	(1,251,944)
Disbursements:			
Business type activities	<u>9,000,217</u>	<u>10,053,748</u>	<u>1,053,531</u>
Excess of receipts over disbursements	4,013,064	4,211,477	(198,413)
Other financing sources (uses):			
Loan proceeds	920,000	500,000	420,000
Proceeds from sale of assets	625	-0-	625
Capital grants	821	-0-	821
Acquisition of capital assets	(2,284,613)	(3,661,439)	1,376,826
Interest received on investments	311,068	158,000	153,068
Principal/Interest payments on long term borrowings	(1,727,776)	(1,734,308)	6,532
Other sources (uses), net	<u>(323,012)</u>	<u>(346,425)</u>	<u>23,413</u>
Total other financing sources (uses)	<u>(3,102,887)</u>	<u>(5,084,172)</u>	<u>1,981,285</u>
Excess of receipts and other financing sources over disbursements and other financing uses	910,177	(872,695)	<u>\$1,782,872</u>
Balances, beginning of year	<u>9,654,272</u>	<u>9,654,272</u>	
Balances, end of year	<u>\$10,564,449</u>	<u>\$8,781,577</u>	

See Accompanying Independent Auditors' Report.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008**

The Utility prepares an annual budget on a GAAP basis for management purposes. The GAAP basis budget was not exceeded during the fiscal year.

In addition, as required by the Code of Iowa, the Utility annually adopts a budget on the cash basis following required public notice and hearing and is presented along with the City of Harlan's budget. The disbursements may not legally exceed budgeted appropriations at the functional level. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. During the year, a budget amendment by Harlan Municipal Utilities increased operating revenues by \$1,300,000, increased budgeted disbursements by \$1,300,000 and increased other financing uses by \$250,000. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, actual cash disbursements did not exceed the final statutory budget.

OTHER SUPPLEMENTARY INFORMATION

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE BALANCE SHEETS
JUNE 30, 2007 AND 2008**

	<u>2007</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvement, emergency and contingency funds:		
Cash and savings	\$ 716,276	\$ 716,276
Plant improvement, emergency and replacement funds bond requirement:		
Cash and savings	250,000	250,000
Restricted		
Consumers' deposit fund	23,724	26,550
Revenue bond retirement-savings	852,552	847,230
Capital improvement fund – savings	3,336	3,914
Unrestricted		
Cash and savings	3,091,187	2,758,865
Industrial development fund	146,298	148,923
Accounts receivable-net of allowance for doubtful accounts of \$8,500		
For 2007 and \$9,000 for 2008	433,692	222,734
Unbilled usage	235,265	165,233
Employee loans receivable	15,394	11,676
Inventory	301,931	337,915
Prepaid expenses	31,718	31,982
Total current assets	<u>6,101,373</u>	<u>5,521,298</u>
CAPITAL ASSETS		
Electric Utility Plant		
Plant in service, at cost	29,452,913	32,790,876
Less: accumulated depreciation	<u>15,689,964</u>	<u>16,727,822</u>
	13,762,949	16,063,054
Construction work in progress	<u>1,434,064</u>	<u>-0-</u>
Net capital assets	15,197,013	16,063,054
OTHER ASSETS		
Note receivable – fair grounds	-0-	27,336
Bond discount and issuance costs	29,705	23,031
Intra-utility note receivable	94,954	94,954
Restricted investments for bonds:		
Debt reserve and sinking	<u>818,500</u>	<u>818,500</u>
Total other assets	<u>943,159</u>	<u>963,821</u>
Total assets	<u>\$ 22,241,545</u>	<u>\$ 22,548,173</u>

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE BALANCE SHEETS (Continued)
JUNE 30, 2007 AND 2008**

	<u>2007</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 217,364	\$ 219,601
Payroll taxes payable	32,501	12,257
Sales and use tax payable	1,264	(286)
Salaries, vacation and sick leave payable	48,451	54,913
Accrued property taxes	124,008	118,810
Bonds called not paid	12,080	12,080
Other accrued liabilities	758	631
Payable from restricted assets		
Current maturities of long-term debt	1,055,254	1,005,254
Interest payable	64,328	53,906
Customers' deposits	22,850	26,310
Total current liabilities	<u>1,578,858</u>	<u>1,503,476</u>
Long-term debt, net of current maturities	5,395,000	4,395,000
Contract Payable, net of current maturities	<u>15,761</u>	<u>10,507</u>
	5,410,761	4,405,507
NET ASSETS		
Designated	966,277	966,277
Undesignated	<u>14,285,649</u>	<u>15,672,913</u>
Total net assets	<u>15,251,926</u>	<u>16,639,190</u>
Total Liabilities & Net Assets	<u>\$ 22,241,545</u>	<u>\$ 22,548,173</u>

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2008**

	2007	2008	2008	Budget Variance Favorable (Unfavorable)
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	
OPERATING REVENUES				
Sales to consumers	\$5,301,937	\$5,408,279	\$6,469,478	\$(1,061,199)
Other operating revenues	114,611	95,162	109,310	(14,148)
Excess sales – Louisa Power	<u>722,322</u>	<u>740,328</u>	<u>875,000</u>	<u>(134,672)</u>
Total operating revenues	6,138,870	6,243,769	7,453,788	(1,210,019)
OPERATING EXPENSES				
Plant operation expenses				
Cost of excess sales	214,208	569,829	855,000	285,171
Cost of power	1,819,416	1,750,449	2,443,667	693,218
Salaries and wages	61,081	67,801	52,816	(14,985)
Repairs and maintenance	10,531	15,057	5,400	(9,657)
Utilities	57,610	55,837	61,100	5,263
Insurance	41,129	39,573	38,000	(1,573)
Property taxes	124,008	118,810	120,000	1,190
Other	<u>53,411</u>	<u>48,247</u>	<u>42,480</u>	<u>(5,767)</u>
Total plant operation expense	2,381,394	2,665,603	3,618,463	952,860
Distribution operation expenses				
Salaries and wages	191,117	191,578	187,515	(4,063)
Engineering	5,119	5,104	9,048	3,944
Repairs and maintenance	127,913	170,812	136,595	(34,217)
Other	<u>4,698</u>	<u>4,662</u>	<u>7,470</u>	<u>2,808</u>
Total distribution operation expense	328,847	372,156	340,628	(31,528)
Administrative and general expenses				
Salaries and wages	104,945	102,977	114,750	11,773
Office supplies	49,411	54,485	50,700	(3,785)
Education and travel	10,376	9,874	12,000	2,126
Professional services	34,704	19,190	18,000	(1,190)
Other	<u>4,353</u>	<u>7,694</u>	<u>4,910</u>	<u>(2,784)</u>
Total administrative and general expense	203,789	194,220	200,360	6,140
Consumer services				
Bad debts (collected)	<u>4,779</u>	<u>3,781</u>	<u>8,000</u>	<u>4,219</u>
Total consumer services	4,779	3,781	8,000	4,219

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS (Continued)
FOR THE YEARS ENDED JUNE 30, 2007 AND 2008**

	2007	2008	2008	Budget Variance
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Favorable (Unfavorable)</u>
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 9,620	\$ 10,020	\$ 9,900	\$ (120)
Advertising	18,518	40,098	16,825	(23,273)
Other	<u>7,114</u>	<u>5,408</u>	<u>9,190</u>	<u>3,782</u>
Total marketing and stakeholder relations expense	35,252	55,526	35,915	(19,611)
Employee benefits				
Payroll taxes	63,332	63,273	60,218	(3,055)
Health insurance	114,494	104,614	117,000	12,386
Compensated absences	<u>91,009</u>	<u>83,172</u>	<u>89,932</u>	<u>6,760</u>
Total employee benefits	<u>268,835</u>	<u>251,059</u>	<u>267,150</u>	<u>16,091</u>
Total operating expense excluding amortization and depreciation	<u>3,222,896</u>	<u>3,542,345</u>	<u>4,470,516</u>	<u>928,171</u>
Operating income before amortization and depreciation	2,915,974	2,701,424	2,983,272	(281,848)
Amortization	11,171	6,674	15,000	8,326
Depreciation	<u>1,034,519</u>	<u>1,037,858</u>	<u>1,050,000</u>	<u>12,142</u>
	<u>1,045,690</u>	<u>1,044,532</u>	<u>1,065,000</u>	<u>20,468</u>
Operating income	1,870,284	1,656,892	1,918,272	(261,380)
Non-operating revenues (expenses)				
Capital grants	2,368	304	-0-	304
Contributions to City-In lieu of taxes (Note 9)	(185,537)	(194,930)	(185,000)	(9,930)
Gain on sale of assets	150,000	315	-0-	315
Interest income	180,489	178,213	90,000	88,213
Interest expense	(245,211)	(226,048)	(225,047)	(1,001)
Industrial development contribution	<u>(32,000)</u>	<u>(27,482)</u>	<u>(50,000)</u>	<u>22,518</u>
Total non-operating revenues (expenses)	<u>(129,891)</u>	<u>(269,628)</u>	<u>(370,047)</u>	<u>100,419</u>
Change in Net Assets	1,740,393	1,387,264	<u>\$1,548,225</u>	<u>\$ (160,961)</u>
Total net assets, beginning of year	<u>13,511,533</u>	<u>15,251,926</u>		
Total net assets, end of year	<u>\$15,251,926</u>	<u>\$16,639,190</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY
COMPARATIVE BALANCE SHEETS
JUNE 30, 2007 AND 2008**

	<u>2007</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvement, emergency and contingency funds:		
Cash and savings	\$ 243,062	\$ 267,062
Unrestricted		
Cash and savings	1,754,032	1,928,392
Industrial development fund	118,954	121,088
Accounts receivable-net of allowance for doubtful accounts of \$9,000 for 2007 and \$9,500 for 2008	46,502	122,155
Unbilled usage	58,229	91,559
Inventory	31,627	29,868
Prepaid expenses	24,215	24,146
Total current assets	<u>2,276,621</u>	<u>2,584,270</u>
CAPITAL ASSETS		
Utility Plant		
Plant in service, at cost	2,233,776	2,302,224
Less: accumulated depreciation	<u>1,407,353</u>	<u>1,464,136</u>
Net capital assets	826,423	838,088
OTHER ASSETS		
Intra-utility note receivable	<u>142,430</u>	<u>94,953</u>
Total other assets	<u>142,430</u>	<u>94,953</u>
Total assets	<u>\$ 3,245,474</u>	<u>\$ 3,517,311</u>

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY
COMPARATIVE BALANCE SHEETS (Continued)
JUNE 30, 2007 AND 2008**

	<u>2007</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 92,338	\$ 156,841
Sales and use tax payable	2,645	3,780
Salaries, vacation and sick leave payable	19,983	22,651
Total current liabilities	<u>114,966</u>	<u>183,272</u>
Contract payable	34,739	34,687
NET ASSETS		
Designated	243,062	267,062
Undesignated	<u>2,852,707</u>	<u>3,032,290</u>
Total net assets	<u>3,095,769</u>	<u>3,299,352</u>
Total Liabilities & Net Assets	\$ <u>3,245,474</u>	\$ <u>3,517,311</u>

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2008**

	2007 <u>Actual</u>	2008 <u>Actual</u>	2008 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sales to consumers	\$2,887,982	\$3,495,552	\$3,409,712	\$ 85,840
Other operating revenues	<u>7,870</u>	<u>8,049</u>	<u>5,500</u>	<u>2,549</u>
Total operating revenues	2,895,852	3,503,601	3,415,212	88,389
OPERATING EXPENSES				
Plant operation expenses				
Cost of gas	2,109,501	2,679,407	2,616,486	(62,921)
Salaries and wages	18,163	18,306	17,041	(1,265)
Repairs and maintenance	9,921	23,739	8,509	(15,230)
Utilities	17,700	20,176	18,800	(1,376)
Insurance	31,140	29,351	27,000	(2,351)
Other	<u>19,266</u>	<u>19,554</u>	<u>23,358</u>	<u>3,804</u>
Total plant operation expense	2,205,691	2,790,533	2,711,194	(79,339)
Distribution operation expenses				
Salaries and wages	104,656	103,872	111,061	7,189
Engineering	4,050	4,050	3,500	(550)
Repairs and maintenance	27,532	31,675	23,826	(7,849)
Other	<u>1,164</u>	<u>7,135</u>	<u>10,600</u>	<u>3,465</u>
Total distribution operation expense	137,402	146,732	148,987	2,255
Administrative and general expenses				
Salaries and wages	98,575	94,124	96,450	2,326
Office supplies	8,968	9,298	9,500	202
Education and travel	17,173	17,630	8,850	(8,780)
Professional services	35,520	35,156	37,900	2,744
Other	<u>11,535</u>	<u>12,598</u>	<u>12,120</u>	<u>(478)</u>
Total administrative and general expense	171,771	168,806	164,820	(3,986)
Consumer services				
Bad debts	12,440	16,221	9,370	(6,851)
Other	<u>-0-</u>	<u>115</u>	<u>-0-</u>	<u>(115)</u>
Total consumer services	12,440	16,336	9,370	(6,966)

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS (Continued)
FOR THE YEARS ENDED JUNE 30, 2007 AND 2008**

	2007 <u>Actual</u>	2008 <u>Actual</u>	2008 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 9,777	\$ 10,197	\$ 10,170	\$ (27)
Advertising	4,097	5,378	4,670	(708)
Other	<u>8,658</u>	<u>4,121</u>	<u>8,251</u>	<u>4,130</u>
Total marketing and stakeholder relations expense	22,532	19,696	23,091	3,395
Employee benefits				
Payroll taxes	34,413	33,785	35,350	1,565
Health insurance	42,936	37,035	44,000	6,965
Compensated absences	<u>35,558</u>	<u>28,485</u>	<u>29,795</u>	<u>1,310</u>
Total employee benefits	<u>112,907</u>	<u>99,305</u>	<u>109,145</u>	<u>9,840</u>
Total operating expense excluding amortization and depreciation	<u>2,662,743</u>	<u>3,241,408</u>	<u>3,166,607</u>	<u>(74,801)</u>
Operating income before amortization and depreciation	233,109	262,193	248,605	13,588
Depreciation	<u>56,340</u>	<u>56,783</u>	<u>60,500</u>	<u>3,717</u>
Operating income	176,769	205,410	188,105	17,305
Non-operating revenues (expenses)				
Capital grants	1,984	254	-0-	254
Contributions to City-In lieu of taxes (Note 9)	(37,523)	(46,236)	(35,000)	(11,236)
Gain (loss) on sale of asset	-0-	310	-0-	310
Interest income	56,903	70,953	35,000	35,953
Industrial development contribution	<u>(32,000)</u>	<u>(27,108)</u>	<u>(50,000)</u>	<u>22,892</u>
Total non-operating revenues (expenses)	<u>(10,636)</u>	<u>(1,827)</u>	<u>(50,000)</u>	<u>48,173</u>
Change in Net Assets	166,133	203,583	<u>\$ 138,105</u>	<u>\$ 65,478</u>
Total net assets, beginning of year	<u>2,929,636</u>	<u>3,095,769</u>		
Total net assets, end of year	<u>\$3,095,769</u>	<u>\$3,299,352</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE BALANCE SHEETS
JUNE 30, 2007 AND 2008**

	<u>2007</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvement, emergency and contingency funds:		
Cash and savings	\$ 37,991	\$ 37,991
Restricted		
Revenue bond retirement-savings	-0-	-0-
Capital improvement fund-savings	170,000	170,000
Unrestricted		
Cash and savings	308,661	411,338
Accounts receivable-net of allowance for doubtful accounts of \$4,000 for 2007 and \$4,500 for 2008	198,108	191,392
Unbilled usage	54,912	47,864
Inventory	53,651	42,786
Prepaid expenses	25,112	25,040
Total current assets	<u>848,435</u>	<u>926,411</u>
CAPITAL ASSETS		
Utility Plant		
Plant in service, at cost	7,394,030	7,482,948
Less: accumulated depreciation	<u>3,723,474</u>	<u>3,884,786</u>
Net capital assets	3,670,556	3,598,162
OTHER ASSETS		
Bond discount and issuance costs	19,487	15,299
Restricted investments for bonds:		
Debt reserve & sinking	<u>227,000</u>	<u>227,000</u>
Total other assets	<u>246,487</u>	<u>242,299</u>
Total assets	<u>\$ 4,765,478</u>	<u>\$ 4,766,872</u>

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE BALANCE SHEETS (Continued)
JUNE 30, 2007 AND 2008**

	<u>2007</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 18,214	\$ 26,784
Sales and use tax payable	8,265	7,994
Salaries, vacation and sick leave payable	38,473	41,423
Due to City of Harlan for utility collections	<u>147,271</u>	<u>143,970</u>
Total current liabilities	212,223	220,171
Long-term debt, net of current maturities	1,415,000	1,255,000
NET ASSETS		
Designated	37,991	37,991
Undesignated	<u>3,100,264</u>	<u>3,253,710</u>
Total net assets	<u>3,138,255</u>	<u>3,291,701</u>
 Total Liabilities & Net Assets	 \$ <u>4,765,478</u>	 \$ <u>4,766,872</u>

See Accompanying Independent Auditor's Report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2008**

	2007 <u>Actual</u>	2008 <u>Actual</u>	2008 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sales to consumers	\$1,268,400	\$1,253,447	\$1,408,265	\$ (154,818)
Other operating revenues	<u>27,443</u>	<u>20,736</u>	<u>28,200</u>	<u>(7,464)</u>
Total operating revenues	1,295,843	1,274,183	1,436,465	(162,282)
OPERATING EXPENSES				
Plant operation expenses				
Cost of chemicals	73,729	79,540	79,997	457
Salaries and wages	154,931	148,667	200,635	51,968
Repairs and maintenance	73,029	66,507	64,220	(2,287)
Utilities	94,967	96,974	93,950	(3,024)
Insurance	32,293	30,438	32,000	1,562
Other	<u>44,658</u>	<u>54,143</u>	<u>38,437</u>	<u>(15,706)</u>
Total plant operation expense	473,607	476,269	509,239	32,970
Distribution operation expenses				
Salaries and wages	28,504	28,109	28,403	294
Engineering	11,141	11,030	14,400	3,370
Repairs and maintenance	20,962	22,296	15,246	(7,050)
Other	<u>1,017</u>	<u>937</u>	<u>1,150</u>	<u>213</u>
Total distribution operation expense	61,624	62,372	59,199	(3,173)
Administrative and general expenses				
Salaries and wages	97,202	92,428	99,650	7,222
Office supplies	18,189	19,070	18,900	(170)
Education and travel	4,014	3,952	4,800	848
Professional services	12,170	9,473	15,000	5,527
Other	<u>28,579</u>	<u>35,355</u>	<u>29,130</u>	<u>(6,225)</u>
Total administrative and general expense	160,154	160,278	167,480	7,202
Consumer services				
Salaries and wages	-0-	-0-	-0-	-0-
Bad debts	<u>6,029</u>	<u>8,309</u>	<u>4,300</u>	<u>(4,009)</u>
Total consumer services	6,029	8,309	4,300	(4,009)

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS (Continued)
FOR THE YEARS ENDED JUNE 30, 2007 AND 2008**

	2007	2008	2008	Budget Variance Favorable
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>(Unfavorable)</u>
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 9,645	\$ 10,020	\$ 9,900	\$ (120)
Advertising	5,340	6,260	4,950	(1,310)
Other	<u>4,692</u>	<u>4,267</u>	<u>7,832</u>	<u>3,565</u>
Total marketing and stakeholder relations expense	19,677	20,547	22,682	2,135
Employee benefits				
Payroll taxes	49,970	47,321	58,834	11,513
Health insurance	80,965	76,044	83,000	6,956
Compensated absences	<u>58,257</u>	<u>48,703</u>	<u>53,402</u>	<u>4,699</u>
Total employee benefits	<u>189,192</u>	<u>172,068</u>	<u>195,236</u>	<u>23,168</u>
Total operating expense excluding amortization and depreciation	<u>910,283</u>	<u>899,843</u>	<u>958,136</u>	<u>58,293</u>
Operating income before amortization and depreciation	385,560	374,340	478,329	(103,989)
Amortization	4,585	4,188	5,000	812
Depreciation	<u>156,865</u>	<u>161,311</u>	<u>160,000</u>	<u>(1,311)</u>
	<u>161,450</u>	<u>165,499</u>	<u>165,000</u>	<u>(499)</u>
Operating income	224,110	208,841	313,329	(104,488)
Non-operating revenues (expenses)				
Contributions to City-In lieu of taxes (Note 9)	(26,892)	(26,728)	(26,000)	(728)
Interest income	26,928	32,523	15,000	17,523
Interest expense	(67,545)	(61,453)	(61,452)	(1)
Grant income	<u>87,195</u>	<u>263</u>	<u>-0-</u>	<u>263</u>
Total non-operating revenues (expenses)	<u>19,686</u>	<u>(55,395)</u>	<u>(72,452)</u>	<u>17,057</u>
Change in Net Assets	243,796	153,446	<u>\$ 240,877</u>	<u>\$ (87,431)</u>
Total net assets, beginning of year	<u>2,894,459</u>	<u>3,138,255</u>		
Total net assets, end of year	<u>\$3,138,255</u>	<u>\$3,291,701</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE BALANCE SHEETS
JUNE 30, 2007 AND 2008**

	<u>2007</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 109,343	\$ 123,000
Restricted		
Revenue bond retirement savings	18,599	24,783
Capital improvement fund savings	-0-	668,000
Unrestricted		
Cash and savings	368,259	584,984
Accounts receivable-net of allowance for doubtful accounts of \$7,000 for 2007 and 2008	112,755	120,985
Inventory	5,720	3,958
Prepaid expenses	8,072	8,048
Total current assets	<u>622,748</u>	<u>1,533,758</u>
CAPITAL ASSETS		
Telecommunications Utility Plant		
Plant in service, at cost	1,205,944	1,246,185
Less: accumulated depreciation	<u>543,297</u>	<u>597,630</u>
	662,647	648,555
Construction work in progress	<u>-0-</u>	<u>161,267</u>
Net capital assets	662,647	809,822
OTHER ASSETS		
Bond discount and issuance costs	650	223
Restricted investments for bonds:		
Debt reserve & sinking	<u>31,723</u>	<u>123,722</u>
Total other assets	<u>32,373</u>	<u>123,945</u>
Total assets	\$ <u><u>1,317,768</u></u>	\$ <u><u>2,467,525</u></u>

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE BALANCE SHEETS (Continued)
JUNE 30, 2007 AND 2008**

	<u>2007</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 38,708	\$ 102,522
Sales and use tax payable	3,252	10,244
Salaries, vacation and sick leave payable	11,151	14,462
Due to City of Harlan for utility collections	15,771	17,056
Payable from restricted assets		
Interest payable	1,084	7,976
Current maturities long-term debt	<u>65,000</u>	<u>128,558</u>
Total current liabilities	134,966	280,818
Long-term debt, net of current maturities	68,454	858,667
NET ASSETS		
Designated	109,343	123,000
Undesignated	<u>1,005,005</u>	<u>1,205,040</u>
Total net assets	<u>1,114,348</u>	<u>1,328,040</u>
Total Liabilities & Net Assets	<u>\$ 1,317,768</u>	<u>\$ 2,467,525</u>

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2008**

	2007 <u>Actual</u>	2008 <u>Actual</u>	2008 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sales to consumers	\$1,139,439	\$1,223,462	\$1,259,478	\$ (36,016)
Other operating revenues	<u>19,755</u>	<u>27,151</u>	<u>11,800</u>	<u>15,351</u>
Total operating revenues	1,159,194	1,250,613	1,271,278	(20,665)
OPERATING EXPENSES				
Plant operation expenses				
Cost of programming	453,618	504,002	496,550	(7,452)
Salaries and wages	17,254	16,082	11,335	(4,747)
Repairs and maintenance	18,117	31,676	21,655	(10,021)
Utilities	13,893	17,431	14,600	(2,831)
Insurance	10,380	9,892	21,100	11,208
Other	<u>3,341</u>	<u>6,065</u>	<u>6,350</u>	<u>285</u>
Total plant operation expense	516,603	585,148	571,590	(13,558)
Distribution operation expenses				
Salaries and wages	69,969	84,042	83,800	(242)
Engineering	6,412	8,503	5,500	(3,003)
Repairs and maintenance	9,712	9,735	10,200	465
Other	<u>47,868</u>	<u>38,325</u>	<u>28,100</u>	<u>(10,225)</u>
Total distribution operation expense	133,961	140,605	127,600	(13,005)
Administrative and general expenses				
Salaries and wages	47,280	49,843	46,150	(3,693)
Office supplies	23,603	27,785	20,700	(7,085)
Education and travel	2,676	1,062	2,000	938
Professional services	26,016	38,500	31,400	(7,100)
Other	<u>890</u>	<u>1,546</u>	<u>1,120</u>	<u>(426)</u>
Total administrative and general expense	100,465	118,736	101,370	(17,366)
Consumer services				
Bad debts	819	5,827	7,300	1,473
Other	<u>1,065</u>	<u>1,428</u>	<u>5,325</u>	<u>3,897</u>
Total consumer services	1,884	7,255	12,625	5,370

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS (Continued)
FOR THE YEARS ENDED JUNE 30, 2007 AND 2008**

	2007	2008	2008	Budget Variance Favorable (Unfavorable)
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 36,799	\$ 41,371	\$ 38,080	\$ (3,291)
Advertising	13,468	14,349	12,850	(1,499)
Other	<u>6,062</u>	<u>2,451</u>	<u>3,632</u>	<u>1,181</u>
Total marketing and stakeholder relations expense	56,329	58,171	54,562	(3,609)
Employee benefits				
Payroll taxes	25,993	29,022	26,721	(2,301)
Health insurance	23,157	26,711	24,000	(2,711)
Compensated absences	<u>21,750</u>	<u>21,087</u>	<u>19,089</u>	<u>(1,998)</u>
Total employee benefits	<u>70,900</u>	<u>76,820</u>	<u>69,810</u>	<u>(7,010)</u>
Total operating expense excluding amortization and depreciation	<u>880,142</u>	<u>986,735</u>	<u>937,557</u>	<u>(49,178)</u>
Operating income before amortization and depreciation	279,052	263,878	333,721	(69,843)
Amortization	1,262	427	1,500	1,073
Depreciation	<u>58,039</u>	<u>54,333</u>	<u>60,000</u>	<u>5,667</u>
	<u>59,301</u>	<u>54,760</u>	<u>61,500</u>	<u>6,740</u>
Operating income (loss)	219,751	209,118	272,221	(63,103)
Non-operating revenues (expenses)				
Contributions to City-In lieu of taxes (Note 9)	(495)	(528)	(425)	(103)
Interest income	11,074	15,292	6,000	9,292
Interest expense	<u>(6,173)</u>	<u>(10,190)</u>	<u>(3,769)</u>	<u>(6,421)</u>
Total non-operating revenues (expenses)	<u>4,406</u>	<u>4,574</u>	<u>1,806</u>	<u>2,768</u>
Change in Net Assets	224,157	213,692	<u>\$ 274,027</u>	<u>\$ (60,335)</u>
Total net assets, beginning of year	<u>890,191</u>	<u>1,114,348</u>		
Total net assets, end of year	<u>\$1,114,348</u>	<u>\$1,328,040</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELEPHONE UTILITY
COMPARATIVE BALANCE SHEETS
JUNE 30, 2007 AND 2008**

ASSETS	<u>2007</u>	<u>2008</u>
CURRENT ASSETS		
Restricted		
Revenue bond retirement savings	\$ 49,114	\$ 47,979
Unrestricted		
Cash and savings	175,661	118,852
Accounts receivable-net of allowances for doubtful accounts of \$9,500 for 2007 and 2008	63,987	57,606
Unbilled usage	17,185	11,781
Prepaid expenses	2,691	2,683
Total current assets	<u>308,638</u>	<u>238,901</u>
CAPITAL ASSETS		
Telephone Utility Plant	1,750,686	1,772,525
Less accumulated depreciation	<u>635,143</u>	<u>770,547</u>
Net capital assets	1,115,543	1,001,978
OTHER ASSETS		
Other Accounts receivable	136,972	137,461
Bond discount and issuance cost	-0-	-0-
Restricted investments for bonds:		
Debt reserve and sinking	<u>140,000</u>	<u>140,000</u>
Total other assets	<u>276,972</u>	<u>277,461</u>
Total assets	<u>\$ 1,701,153</u>	<u>\$ 1,518,340</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 34,738	\$ 48,044
Sales and use tax payable	776	2,062
Salaries, vacation and sick leave payable	4,579	5,705
Other accrued liabilities	388	363
Payable from restricted assets		
Interest payable	15,995	14,859
Current maturities-long term debt	<u>85,000</u>	<u>85,000</u>
Total current liabilities	<u>141,476</u>	<u>156,033</u>
LONG TERM LIABILITIES		
Long-term debt, net of current maturities	1,315,000	1,230,000
Deferred income – CABS	136,972	137,462
Intra-utility note payable, net of current maturities	<u>237,384</u>	<u>189,907</u>
Total noncurrent liabilities	1,689,356	1,557,369
NET ASSETS		
Undesignated (deficit) (Note 10)	<u>(129,679)</u>	<u>(195,062)</u>
Total Liabilities and Net Assets	<u>\$ 1,701,153</u>	<u>\$ 1,518,340</u>

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELEPHONE UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
JUNE 30, 2007 AND 2008**

	2007	2008	2008	Budget Variance Favorable (Unfavorable)
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	
OPERATING REVENUES				
Sales to consumers	\$ 692,796	\$ 571,947	\$ 638,482	\$ (66,535)
Other operating revenues	<u>-0-</u>	<u>-0-</u>	<u>50,000</u>	<u>(50,000)</u>
Total operating revenues	692,796	571,947	688,482	(116,535)
OPERATING EXPENSES				
Plant operation expenses				
Cost of line charges & fees	363,030	312,252	371,500	59,248
Salaries and wages	1,229	1,336	1,369	33
Repairs and maintenance	4,305	13,804	5,850	(7,954)
Utilities	4,632	5,845	4,700	(1,145)
Insurance	3,460	3,261	6,500	3,239
Other	<u>15,707</u>	<u>5,826</u>	<u>20,700</u>	<u>14,874</u>
Total plant operation expense	392,363	342,324	410,619	68,295
Distribution operation expenses				
Repairs and maintenance	44	105	-0-	(105)
Administrative and general expenses				
Salaries and wages	37,890	40,960	35,475	(5,485)
Office supplies	5,769	6,498	6,050	(448)
Professional services	1,234	5,029	8,900	3,871
Other	<u>4,340</u>	<u>8,163</u>	<u>4,360</u>	<u>(3,803)</u>
Total administrative and general expense	49,233	60,650	54,785	(5,865)
Consumer services				
Bad debts	(952)	5,208	10,000	4,792
Other	<u>304</u>	<u>232</u>	<u>-0-</u>	<u>(232)</u>
Total consumer services	(648)	5,440	10,000	4,560

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELEPHONE UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS (Continued)
FOR THE YEARS ENDED JUNE 30, 2007 AND 2008**

	2007 <u>Actual</u>	2008 <u>Actual</u>	2008 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 4,972	\$ 5,262	\$ 4,925	\$ (337)
Advertising	4,167	6,181	8,625	2,444
Other	<u>716</u>	<u>789</u>	<u>3,185</u>	<u>2,396</u>
Total marketing and stakeholder relations expense	9,855	12,232	16,735	4,503
Employee benefits				
Payroll taxes	6,896	7,443	6,758	(685)
Health insurance	12,784	14,613	13,300	(1,313)
Compensated absences	<u>9,654</u>	<u>9,656</u>	<u>8,735</u>	<u>(921)</u>
Total employee benefits	29,334	31,712	28,793	(2,919)
Total operating expense excluding amortization and depreciation	<u>480,181</u>	<u>452,463</u>	<u>520,932</u>	<u>68,469</u>
Operating income before amortization and depreciation	212,615	119,484	167,550	(48,066)
Amortization	3,806	-0-	2,500	2,500
Depreciation	<u>134,158</u>	<u>135,404</u>	<u>135,000</u>	<u>(404)</u>
	<u>137,964</u>	<u>135,404</u>	<u>137,500</u>	<u>2,096</u>
Operating income (loss)	74,651	(15,920)	30,050	(45,970)
Non-operating revenues (expenses)				
Interest income	13,329	14,088	12,000	2,088
Interest expense	<u>(79,391)</u>	<u>(63,551)</u>	<u>(83,786)</u>	<u>20,235</u>
Total non-operating revenues (expenses)	<u>(66,062)</u>	<u>(49,463)</u>	<u>(71,786)</u>	<u>22,323</u>
Change in Net Assets	8,589	(65,383)	<u>\$ (41,736)</u>	<u>\$ (23,647)</u>
Total net assets, beginning of year (deficit)	<u>(138,268)</u>	<u>(129,679)</u>		
Total net assets, end of year (deficit)	<u>\$ (129,679)</u>	<u>\$ (195,062)</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES
SUMMARY OF USAGE STATISTICS-ELECTRIC
(UNAUDITED)
JUNE 30, 2007 AND 2008**

Electric Utility

	<u>2007</u>	
KWH purchased and generated*	66,213,527	100.00%
Less: KWH unaccounted for	<u>(4,602,784)</u>	<u>(6.95%)</u>
KWH billed	<u>61,610,743</u>	<u>93.05%</u>

Rate Categories

	<u>Customers</u>	<u>KWH Billed</u>
Single Phase Small	2,649	27,915,919
Single Phase Large	31	2,327,200
Three Phase	121	6,361,472
Commercial	1	672,384
Demand	25	6,522,564
Time of Use	13	15,277,624
Municipal – City of Harlan, Demand	3	584,440
Street lights	9	981,693
Water Plant – pumping	14	967,447
	<u>2,866</u>	<u>61,610,743</u>

	<u>2008</u>	
KWH purchased and generated*	66,363,915	100.00%
Less: KWH unaccounted for	<u>(3,742,485)</u>	<u>(5.64%)</u>
KWH billed	<u>62,621,430</u>	<u>94.36%</u>

Rate Categories

	<u>Customers</u>	<u>KWH Billed</u>
Single Phase Small	2,634	28,943,934
Single Phase Large	35	2,379,460
Three Phase	117	5,593,557
Commercial	1	730,176
Demand	28	6,946,692
Time of Use	13	15,413,428
Municipal – City of Harlan, Demand	3	601,440
Street lights	8	1,005,023
Water Plant – pumping	15	1,007,720
	<u>2,854</u>	<u>62,621,430</u>

*Total to Harlan Municipal Utilities' gate - includes KWH's from Louisa Generating Station.

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES
SUMMARY OF USAGE STATISTICS-GAS
(UNAUDITED)
JUNE 30, 2007 AND 2008**

Gas Utility

	<u>2007</u>	
CCF purchased	3,328,150	100.00%
Add: CCF unaccounted for	124,801	3.75%
	<hr/>	<hr/>
CCF billed	3,452,951	103.75%
	<hr/>	<hr/>
<u>Rate Categories</u>	<u>Customers</u>	<u>CCF Billed</u>
Residential	1,950	1,504,473
Commercial	305	478,275
Large Commercial	37	448,249
Interruptible	4	1,021,954
	<hr/>	<hr/>
	2,296	3,452,951
	<hr/>	<hr/>

	<u>2008</u>	
CCF purchased	3,563,520	100.00%
Add: CCF unaccounted for	134,624	3.78%
	<hr/>	<hr/>
CCF billed	3,698,144	103.78%
	<hr/>	<hr/>
<u>Rate Categories</u>	<u>Customers</u>	<u>CCF Billed</u>
Residential	1,932	1,616,765
Commercial	304	495,029
Large Commercial	36	532,627
Interruptible	4	1,053,723
	<hr/>	<hr/>
	2,276	3,698,144
	<hr/>	<hr/>

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES
SUMMARY OF USAGE STATISTICS-WATER
(UNAUDITED)
JUNE 30, 2007 AND 2008**

Water Utility

	<u>2007</u>	
Gallons produced	243,833,000	
Gallons used in production	(40,124,934)	
Gallons to account for	203,708,066	100.00%
Less: gallons unaccounted for	(24,868,000)	(12.21%)
Gallons billed	178,840,066	87.79%

<u>Rate Categories</u>	<u>Customers</u>	<u>Gallons Billed</u>
Residential	2,039	93,653,766
Commercial	379	70,521,300
Interruptible	1	14,665,000
	2,419	178,840,066

	<u>2008</u>	
Gallons produced	243,318,000	
Gallons used in production	(41,755,625)	
Gallons to account for	201,562,375	100.00%
Less: Gallons unaccounted for	(24,167,342)	(11.99%)
Gallons billed	177,395,033	88.01%

<u>Rate Categories</u>	<u>Customers</u>	<u>Gallons Billed</u>
Residential	2,039	93,653,766
Commercial	379	70,521,300
Interruptible	1	14,665,000
	2,419	178,840,066

See Accompanying Independent Auditor's Report.

HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

October 27, 2008

To the Board of Trustees of the
Harlan Municipal Utilities:

We have audited the accompanying financial statements of Harlan Municipal Utilities as of and for the year ended June 30, 2008, and have issued our report thereon dated October 27, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harlan Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Harlan Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Harlan Municipal Utilities' internal control over financial reporting..

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Harlan Municipal Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Harlan Municipal Utilities' financial statements that is more than inconsequential will not be prevented or detected by Harlan Municipal Utilities' internal control. We did not find any deficiencies in internal control.

October 27, 2008
To the Board of Trustees of the
Harlan Municipal Utilities:

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements, will not be prevented or detected by Harlan Municipal Utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not find any significant deficiencies, and thus we did not note any material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harlan Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Harlan Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utilities' responses, we did not audit Harlan Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the board of trustees, management, employees and stakeholders of Harlan Municipal Utilities and other parties to whom the Utility may report. This report is not intended and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Harlan Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we will be pleased to discuss them with you at your convenience.



HEITHOFF, HANSEN, MUHLBAUER & Co., P.C.
Certified Public Accountants

**HARLAN MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, and therefore there were also no material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

No significant deficiencies were noted.

Part III: Other Findings Related to Required Statutory Reporting:

- III-A-08 Certified Budget – Harlan Municipal Utilities is a component unit of the City of Harlan, therefore their receipts and disbursements are included in the Certified Budget of the City of Harlan. Cash disbursements during the year ended June 30, 2008 did not exceed the amounts budgeted.
- III-B-08 Questionable Disbursements – Disbursements of the Utility money appear to meet public purpose requirements.
- III-C-08 Travel Expense – No disbursements of Utility money for travel expenses for spouses of the Utilities officials or employees were noted.

**HARLAN MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Part III: Other Findings Related to Required Statutory Reporting (Continued):

III-D-08 Business Transactions – Business transactions between Harlan Municipal Utilities and Utility officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Steve Keast, Husband of Board Member, Shareholder of Keast Ford Lincoln/ Mercury, Inc.	Labor, Parts, Repairs Escape Hybrid, per bid 2008 Ford Pickup, per bid	\$ 2,987 26,500 <u>22,600</u>
		<u>\$ 52,087</u>

The transactions involving the purchase of two vehicles do not appear to represent a conflict of interest since they were entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa. However, in accordance with Chapter 362.5(10) of the Code of Iowa, the transactions involving labor, parts and repairs do appear to represent a conflict of interest since they were over \$1,500 and not competitively bid.

Recommendation – The Utility should consult legal counsel to determine the disposition of this matter.

Response – We will do this. However, this is the only Ford dealer in the City, and many of our vehicles are Fords.

Conclusion – Response accepted.

III-E-08 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provision. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

III-F-08 Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not. Minutes of the Utility proceedings were all property and timely published. Also the Utility did publish annual gross salaries for 2007 as in accordance with an Attorney General's opinion dated April 12, 1978.

III-G-08 Revenue Notes – The Utility is in compliance with all the provisions of revenue note resolutions for all of the funds.

III-H-08 Deposits and Investments - No instance of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities' investment policy were noted.

**HARLAN MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Part III: Other Findings Related to Required Statutory Reporting (Continued):

III-I-08 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

III-J-08 Deficit Fund Equity – As previously noted, the Telephone Fund has a deficit balance of \$195,062, as of June 30, 2008. This deficit increased by \$65,383 from the prior year.

Recommendation - The Utility should monitor the activity in this fund in order to eliminate the deficit.

Response – Effective July 1, 2008, the Telephone Utility and the General Telecommunications Utility will be consolidated for all purposes and shall be operated as a single integrated utility called the Harlan Municipal Telecommunications Utility. After these two utilities are joined, the deficit balance will be reduced over time from cost reductions resulting from our Host Switching Agreement with Walnut Communications.

Conclusion - Response accepted.